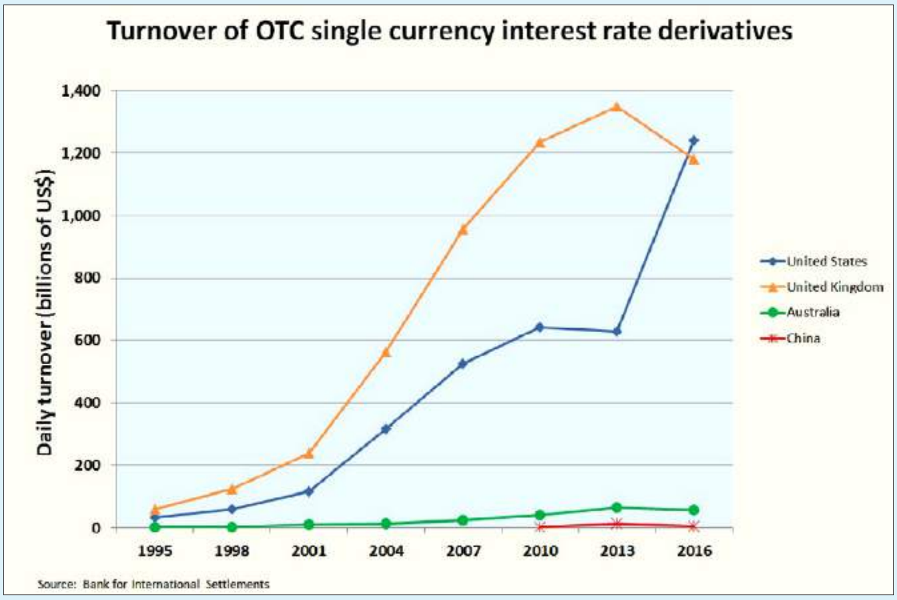
The only area China isn't competitive—derivatives

By Elisa Barwick



In part two of a three-part video series, "Time of Xi", produced by Meridian Line Films for Discovery Asia and CCTV-English (available on YouTube), former Australian Prime Minister Kevin Rudd, who is quoted throughout, spoke about Chinese President Xi Jinping's notion of comprehensive development. "It requires an integrated approach to politics, the economy, culture, society, as well as the environment", he said, "and [President Xi] says we are only developing if we are advancing on all five fronts and not just one."

In other words, the growth of statistical economic measures such as GDP, cannot alone reveal the advancement of a nation. Rudd would certainly not understand it, but what Xi is expressing is commensurate with the central feature of US statesman and economist Lyndon LaRouche's major economic discovery of the early 1950s, which derived from an understanding that statistical methods could not measure living processes and therefore cannot adequately represent products of the creativity of the human mind as applied to an economy. The impact of discoveries of scientific principle, which foster revolutionary advances in technology and transformations in the productive powers of labour, cannot be measured in simple mathematical, or monetary, terms.

China has hit upon this understanding and has adopted a different approach to measuring progress. Understanding the impact of cognitive development and scientific discovery on the economy it has become a world leader in scientific and cultural education and is investing enormous energy into its space program. Understanding the relative importance of physical economic growth, it has introduced a host of measures to constrain financial speculation and stimulate productive activity, and at the G20 Summit in Hangzhou, China in September 2016, proposed a "new path of economic development" for the world, moving beyond "fiscal and monetary policy alone".

China's approach has turned it into a world-beater, except in one interesting area—financial derivatives, the financial side-bets that have exploded in use since the 1980s, into a $1.2 *quadrillion* bubble. China has a daily turnover of the most common derivative, interest rate swaps, of $4 billion. While nothing measured in billions should ever be thought small, Australia's turnover by comparison is $56 billion—14 times China's turnover, but with 1/60th of the population! The per capita measure is even more extreme: China's is $2.80 per person; Australia $2,300 per person. Comparisons with the USA and UK are even worse (see charts).

These derivatives figures reflect China's emphasis on finance serving its physical economy. It is no coincidence that the world's most successful economy has had a Glass-Steagall-style banking separation, to prevent deposit-taking banks from speculating, in place since 1993. It implemented this policy just as Western nations were preparing to dismantle it. Another example of China adopting successful policies that Western neoliberals discarded is its introduction of Policy Banks as vehicles for government policy initiatives to develop the country, which came not long after the Australian government privatised its Commonwealth Bank, ending its national purpose.

Recent Chinese financial reforms, including changes to foreign investment laws, have further dried up speculative and non-productive money flows. After the 19th Communist Party Congress in October another reform was announced—the creation of a super-financial regulatory agency to have oversight over China's four existing regulatory bodies and entire financial system. Though called the Financial Stability and Development Committee, the new body will not look out for "financial stability" in the Bank for International Settlements or Financial Stability Board sense (p. 4). According to a Chinese government statement translated by Bloomberg News, the committee's mandate includes deliberation over major reform and development for the financial sector; coordinating the making of financial policies and related fiscal and industrial policies; addressing international financial risks; and guiding local financial reform, development and regulation.

While experts the world over worry about China's debt sparking the next financial crisis, it is quite the opposite. Since the 2007-08 global financial crisis, China has invested over 20 trillion dollars into the productive sectors of various nations, which has been the crucial factor keeping the world economy afloat. Unlike Western nations loading up on debt to speculate, debt expansion from China over the past decade is backed by at least $10 trillion worth of new infrastructure and public assets alone. This means that, unlike the West, China's debt is being repaid. Studies have shown that the ratio of net debt to earnings of the main Chinese companies involved is falling significantly and the value of China's capital assets is rising by 40-50 per cent every year. ("Not all debt is equal: China vs. central bank QE", Paul Gallagher, *AAS* 25 Oct. 2017.)